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C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 002665

SIPDIS

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TAGS: OREP EPET SENV ECON PGOV NI
SUBJECT: NIGERIA: U.S. OIL EXECUTIVES TELL SENATOR BINGAMAN FLARING REDUCTION DEPENDS ON GON FUNDING

REF: ABUJA 3201

Classified by Ambassador Howard F. Jeter; Reason 1.5 (d)

¶1. (C) Summary: On August 31, Senator Bingaman (D-New Mexico) met representatives of the three largest Nigerian-based U.S. oil companies (ChevronTexaco, Conoco, and ExxonMobile) to discuss natural gas flaring in Nigeria. The oil executives stated that efforts to halt gas flaring have been hamstrung by the GON's lack of funding to the Nigerian National Petroleum Corporation (NNPC). ExxonMobil, second largest producer in Nigeria after Shell, with 520,000 barrels per day (bpd), plans to end flaring by 2005; Chevron-Texaco, with production around 450,000 bpd, hopes to stop gas flaring by 2007, a year before the GON-mandated 2008 deadline. Conoco, a relatively small producer at 15,500 bpd, will deplete its current production field in 2004. The deep-water blocks the companies are now developing will not flare gas. The executives added that development of the natural gas industry and of an internal market for natural gas has been stifled by the GON's inability to formulate natural gas policies that encourage private sector investment. End summary.

¶2. (C) The U.S. oil executives who met with Senator Bingaman were Steven L. Howard, ChevronTexaco Nigeria Limited General Manager Finances and IT Department; Larry Salz, ExxonMobil Producing Nigeria Unit Limited, Executive Director, Production; John T. Capps, Conoco Energy Nigeria Limited President and Managing Director.

Senator Concerned by Gas Flaring

¶3. (SBU) Senator Bingaman told the oil executives that his interest in gas flaring had been piqued after meeting with World Bank (WB) officials in Washington in early August. Briefing the Senator on a proposed $3 to $4 million dollar program to curtail gas flaring and venting, the WB officials identified Russia and Nigeria as the two most prolific gas flarers, with as much as 75 per cent of Nigeria's natural gas being wasted. Pointing to the economic and environmental losses caused by gas flaring, the Senator asked the oil executives what steps they were taking to rectify this loss.

Slow Progress on Gas Flaring

¶4. (C) Salz said ExxonMobil, which mostly re-injects natural gas into the wells in order to lift more crude, flares 25% to 30%, "probably the lowest in Nigeria." Salz stated that by Nigerian law, all flaring should halt in 2008; ExxonMobil has set 2005 to eliminate gas flaring at all of its facilities. Salz said the major problem in halting gas flaring was the NNPC, which holds 60% of the JV to ExxonMobil's 40%. The NNPC's budget has been cut by the GON and will likely not be able to provide its share of the $2.5 billion project to halt gas flaring, he concluded.

¶5. (C) Comment: Through the NNPC, the GON owns the controlling interests in all joint ventures or production sharing contract production blocks with oil companies. The NNPC, which relies on the GON for its annual budget, has been unable to provide its share of the capital investments required to fund gas flaring reduction facilities. End Comment.

Political Machinations Complicate Problem

¶6. (C) Senator Bingaman remarked that, meeting earlier in

the day, Nigerian President Obasanjo told the CODEL that gas flaring would end by 2004. Salz responded that the current pace of GON investment would not sustain the President's prediction. Salz added, "Nigeria has been slow to stop gas flaring because it is easier to flare than to re-inject or sell it." ChevronTexaco's Howard then said that though there is a huge potential market for natural gas in Nigeria, it is not profitable to produce and sell because, in part, the GON keeps electric and natural gas prices low.

¶7. (C) Capps reported that Conoco would halt oil flaring as soon as its only oil field runs dry, probably in 2004. Concoco's future projects will not flare gas. Howard said that ChevronTexaco has started projects to halt gas flaring by the GON's mandated 2008 date, and hopes to complete them by 2007. Bingaman asked the executives why the NNPC was not acting to halt gas flaring sooner. ExxonMobile's Salz believes the problem is money, for which there are many demands in the GON. He explained that last year the GON gave NNPC $3.1 billion of which ExxonMobile's budget was $1.3 billion. This year that budget was cut by $350 million to $950 million. Simply spoken, the GON penalizes oil companies for flaring, but does not provide NNPC the funding necessary to end it. Nigeria is still not very environmentally conscious and a reduction of flaring, the executives speculated, may not be as politically attractive as other potential uses of the limited government funds.

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Uncertainty in Natural Gas Regime Makes Investors Wary
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¶8. (C) The Senator asked about plans to build natural gas power plants that would use the gas now being flared. ChevronTexaco's Howard said the lack of an integrated policy on natural gas hurts development of the gas and power industries. For example, the GON tries to stimulate the gas industry by taxing profits at 30 per cent (as compared to 70 per cent for oil). But another measure, entry of capital goods duty free, was revoked recently as a way to gather revenue. A USAID Officer also noted that the GON has not decided how to administratively divide up the natural gas portfolio. A lack of clear administrative guidelines and the unclear pricing and regulatory policy in power generation and natural gas have dampened interest by potential investors.

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75 per cent flared is probably too high

¶9. (C) Bingaman asked whether the WB estimate that Nigeria flares 75 per cent of its natural gas was accurate. The oil executives replied in unison that they thought the figure too high. Oil companies must provide monthly flaring reports to the GON and the NNPC should be able to provide an accurate number. The Senator stated that he was concerned about the flaring issue and would try to build support in the Senate for the WB's initiative to reduce gas flaring.

¶10. (C) Comment: Inadequate GON funding of the NNPC bodes poorly for a reduction in Nigeria's gas flaring at the rate the companies plan. This does not mean that the GON is disinterested in gas flaring. A high GON energy sector priority is to become a major player in the natural gas market. To do so, Nigeria must start capturing the gas it now burns. The hurdle is that the GON's current budgetary squeeze makes it difficult to invest significant funds to end gas flaring in the short-term. Because of the GON's financial constraints, this is an issue we must continue to push if we are to get more rapid GON movement to end the environmentally damaging gas flaring.
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